

Solid Clouds hf

Financial Statements 2021*

*These Financial Statements are translated from the original which is in Icelandic. Should there be discrepancies between the two versions, the Icelandic version will take priority over the translated version.

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Statement and Endorsement by the Board of Directors and CEO

Solid Clouds hf was founded in 2013. Its purpose is information technology, software development and creation and marketing of computer games.

These Financial Statements have been prepared in accordance with IFRS (international Financial Reporting Standards).

In accordance with IFRS, the Company capitalized its development cost related to the development of the computer games and its platform. The Company changed its presentation in the Statement of Comprehensive income in the year which resulted in presenting only operating expense that does not result in capitalized development cost in the Balance Sheet, instead of presenting total cost over the year and then deduct capitalized development cost recognized in the Balance Sheet. The current presentation is to present full compliance with IFRS and in line with industry norm.

Changes regarding the Board and key employees

Sigurlína Ingvarsdóttir became Chairman of the Board of the Company at the Annual General Meeting in May 2021. Sigurlína is a game industry veteran, having played a key role in the production of Eve Online, Star Wars Battlefront and FIFA.

Borgeir Auðunn Karlsson was appointed Chief Technical Officer in July 2021. He holds an MSc degree in Computer Science from Reykjavík University, in addition to which he was a research scholar in machine learning at Emory University in Atlanta, Georgia, and has a wealth of experience as a software developer and tech lead in the gaming industry.

Stefán Friðriksson joined Solid Clouds in November 2021 as Head of Products. He brings with him a wealth of experience as a game designer, previously working on EVE Online at CCP Games and Angry Birds Friends at Rovio in Finland.

The impact of the COVID-19 on Solid Clouds hf's performance

Covid-19 had a relatively small impact on Solid Clouds hf in 2021, as the Company implemented various measures to ensure the welfare of its employees.

Operations and financial position

Net loss for the year 2021 amounted to ISK 34 million. Total assets amountd to ISK 1,337 million at year-end 2021 and Stockholders' equity amounted to ISK 1,298 million at the same time.

Capitalized Development costs in 2021 amounted to ISK 184 million with book value amounting to ISK 690 million at year-end 2021. The Company has allocated the capitalized development cost to the technology framework (that shortens the development time for new games), its first game Sovereign Space, and the Frontiers game, which is the Company's main focus now. For further information, see Note 3g and Note 7. The Company had 20 employees during the year, compared with 17 the year before.

The Company expanded its development and art production capacity during the year by agreements with third party developers in Poland and Spain.

Solid Clouds is not focusing on growth efforts for Sovereign Space, its first game; however, the game has a dedicated and a vibrant community of players. Development resources are being prioritized for the Company's forthcoming game, Frontiers.

The Company commenced full production of Frontiers in spring 2021. By drawing on its already developed technology framework, the Company was able to reach a major development milestone in December, after seven months of development, when a technical demo of Frontiers was hosted for 2,000 testers in Asia.

Statement by the Board of Director's and CEO, continued:

In April 2021, Solid Clouds hf raised its share capital by 67,850 shares through an increase amounting to ISK 43 million as the gaming investor Vilano Capital Sp.z.o.o. and related parties acquired shares in the Company. In June, the Company became the first Icelandic gaming company to be listed on the NASDAQ First North market in Iceland. New share capital was issued in the amount of ISK 58 million, with total paid-in share capital increase of ISK 725 million. A broad group of investors, both institutional investors and individuals, participated in the offering. Listing on the market and new share capital strengthened the Company for future growth.

Payment of dividend is not authorized for the year 2021, but the Company's Board of Directors refer to the Financial Statements regarding the offsetting of loss for the year and other changes in equity.

Risk factors

The Company relies on direct marketing to acquire new users. For sustainable growth, the Lifetime value (LTV) of each customer needs to be considerably higher than the cost of user acquisitions. It is uncertain how long it will take the Company to calibrate the Frontiers release candidate to reach the minimum LTV required for large-scale user acquisitions.

As a technology developer, the Company is entitled to R&D tax credits from the Icelandic state. In 2020 the Icelandic government increased the ratio of tax credit for the allowed cost-base from 20% to 35% for the years 2021 and 2022. In the Agreement on the Platform for the Coalition Government that was formed 2021, it was stated that this increase would be made permanent. The necessary legislation has not been presented and so there is an uncertainty regarding whether, and when, this increase will be made permanent.

As a game developer, the Company relies on key personnel to develop its products. If the Company loses key employees, that could have material adverse effects on Company business.

Shareholders

The number of shareholders at the end of the year 2021 stood at 1,587, having been 167 at the beginning of the year. The following were the ten largest shareholders at year-end 2021:

Stefán Gunnarsson	10.4%
Kjölur fjárfestingarfélag ehf	6.6%
Sigurður Arnljótsson	4.1%
Stefán Þór Björnsson	3.8%
Frigus ehf	2.6%
Tómas Sigurðsson	1.9%
S9 ehf	1.9%
Vilano Capital Sp.z.o.o.	1.7%
Kvika - innlend hlutabréf	1.6%
Eggert Árni Gíslason	1.3%
Other shareholders (1,577)	63.9%

Share capital

The Company's registered share capital amounted to ISK 184.2 million at the end of the fiscal year 2021. Each share is ISK 1 nominal value. All shares are in the same category and enjoy the same rights. Further information can be found in Note 11 in the Financial Statements.

Managing Director and Board of Directors' Report, continued:

Governance

The Board of Directors of Solid Clouds hf makes a priority of maintaining good governance and following the guidelines on corporate governance issued by the Iceland Chamber of Commerce, Nasdaq OMX Iceland hf and the Confederation of Icelandic Employees. The board has established rules of procedure defining clearly its area of authority and that of the CEO and contain provisions covering meeting procedures, the qualifications of board members, confidentiality, disclosure of information by the CEO to the board and other matters. The gender ratio in the Company's board is two women (40%) and three men (60%).

The majority of the board members are considered to be independent of the Company, day-to-day management, and its major shareholders. Detailed information on Board members can be found on the Company's website, www.solidclouds.com.

As a member of Iceland's Game Industry trade association, Solid Clouds hf follows its code of conduct regarding non-discrimination on grounds of race, gender, sexual orientation, gender identity, disability, religion, skin colour, nationality, age, residence or other status.

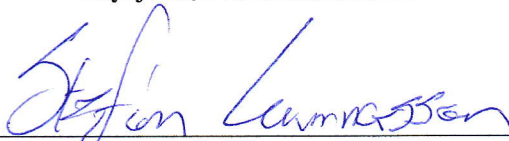
Statement by the Board of Directors and the CEO

To the best of our knowledge, it is our opinion that the Company's Financial Statements give a true and fair view of its operating results for the financial year ended December 31, 2021, its assets, liabilities and financial position on December 31, 2021 and changes in cash during the financial year, in accordance with international accounting standards as confirmed by the European Union.

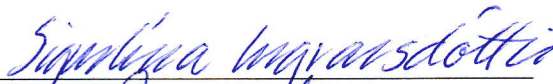
In addition, it is our opinion that the Financial Statements and the report of the Board of Directors and the CEO contain a clear overview of developments and outcomes in the Company's operations, its position, and provide a description of the main risk factors and uncertainties that the Company faces.

The Board of Directors and the Managing Director of Solid Clouds hf hereby confirm the Financial Statements for the year ended December 31, 2021 by their signatures. The Board of Directors and the CEO propose to the Company's Annual General Meeting to approve the Financial Statements.

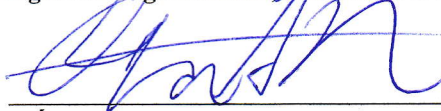
Reykjavík, 30th of March 2022



Stefán Gunnarsson, Managing Director



Sigurlína Ingvarsdóttir, Chairman of the Board



Ólafur Andri Ragnarsson, VC of the Board



Svanhvít Friðriksdóttir, Board Member

Independent Auditor's Report

To the Shareholders and the Board of Directors of Solid Clouds hf

Opinion

We have audited the Financial Statements of Solid Clouds hf for the year ended 2021 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows for the year then ended, and the notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of Solid Clouds hf as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Solid Clouds hf. in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the Financial Statements in Iceland, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors and the CEO are responsible for the other information. The other information comprises the Statement and Endorsement by the Board of Directors and CEO. Our opinion on the Financial Statements does not cover the other information and we do not express any form of assurance conclusion thereon, except the confirmation as stated below.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

In accordance with Paragraph 2 article 104 of the Icelandic Financial Statement Act no. 3/2006, we confirm to the best of our knowledge that the accompanying Statement and Endorsement by the Board of Directors and CEO includes all information required by the Icelandic Financial Statement Act that is not disclosed elsewhere in the Financial Statements.

Responsibilities of the Board of Directors and the CEO for the Financial Statements

The Board of Directors and the CEO are responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and additional requirements in the Icelandic Financial Statement Act, and for such internal control as the Board of Directors and the CEO determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors and the CEO are responsible for assessing Solid Clouds hf's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors and the CEO either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent Auditor's Report, contd.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

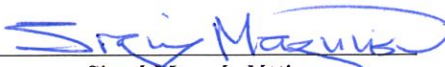
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit, if relevant.

Kópavogur, 30th of March 2022

Deloitte ehf



Signý Magnúsdóttir
Certified Public Accountant

Statement of Comprehensive Income for the year 2021

	Notes	2021	2020
Operating income			
Operating revenues	5	14,353	63,769
Grants	7,13	0	5,668
		14,353	69,436
Operating expenses			
Development cost	14	3,308	8,201
Salaries and related expenditures	6	8,677	16,326
Operating expenses	15	20,173	35,939
		32,158	60,467
Operating (loss) profit before depreciation and financial inc. and expenses		(17,806)	8,969
Depreciation of development costs and right-of use assets	8	(45,553)	(32,921)
Operating loss before financial income and expenses and income tax		(63,359)	(23,952)
Financial income and (expenses)			
Interest revenues		3,313	448
Interest expenses		(1,241)	(1,034)
Currency exchange difference		(1,314)	1,865
		758	1,279
Operating loss before income tax		(62,601)	(22,673)
Income tax	9	28,534	32,318
Net (loss) profit for the year		(34,067)	9,644

The notes on pages 12-24 are an integral part of these Financial Statements.

Balance Sheet December 31, 2021

	Notes	31.12.2021	31.12.2020
Assets			
Development cost	7	690,347	545,677
Right-of use assets	8	10,222	13,428
Income tax asset	9	60,852	32,318
		761,421	591,423
Non-current assets			
Receivables		2,204	1,305
Other receivables		3,343	6,466
Cash and cash equivalents		569,625	58,963
		575,172	66,734
Current assets			
		1,336,593	658,157
Total assets			
Equity			
Share capital		184,199	2,108
Share premium		641,911	733,299
Restricted equity		690,347	545,677
Share based payments		3,373	4,689
Accumulated deficit		(221,415)	(651,954)
		1,298,415	633,819
Total stockholders equity			
Non-current liabilities			
Lease liabilities	8	4,534	8,942
		4,534	8,942
Non-current liabilities			
Liabilities			
Lease liabilities	8	6,352	5,088
Accounts payable		2,450	405
Other payables	10	24,842	9,903
		33,644	15,396
Current liabilities			
		38,178	24,338
Total liabilities			
		1,336,593	658,157
Total equity and liabilities			

The notes on pages 12-24 are an integral part of these Financial Statements.

Statement of Changes in Equity December 31, 2021

	Share capital	Share premium	Restricted equity	Share-based payments	Accumul. deficit	Total Equity
Changes in 2020						
Equity December 31, 2019	1,948	634,259	395,317	2,035	(511,239)	522,321
Paid-in capital	160	99,040				99,200
Comprh. inc. for the year					9,644	9,644
Restricted equity			150,360		(150,360)	0
Share based payments				2,654		2,654
Equity December 31, 2020	2,108	733,299	545,677	4,689	(651,954)	633,819
Changes in 2021						
Equity December 31, 2020	2,108	733,299	545,677	4,689	(651,954)	633,819
Stock split	124,022	(124,022)				0
Accumulated deficit moved to share premium		(609,276)			609,276	0
Paid-in capital	68	42,678				42,746
Share capital increase in public offering	58,000	667,000				725,000
Cost of public offering		(67,767)				(67,767)
Comprh. loss for the year					(34,067)	(34,067)
Restricted equity			144,670		(144,670)	0
Share based payments				(1,316)		(1,316)
Equity December 31, 2021	184,199	641,911	690,347	3,373	(221,415)	1,298,415

See further information about equity in note 11.

The notes on pages 12-24 are an integral part of these Financial Statements.

Statement of Cash Flows for the year 2021

	Notes	2021	2020
Operating activities			
Operating loss before financial income and expenses and income tax		(63,359)	(23,952)
Adjustments to reconcile results from operation to operating activities:			
Depreciation of development costs and right-of-use assets	8	45,553	32,921
Share based payments, change		(1,316)	2,654
Working capital (used in) provided by operating activities		(19,122)	11,623
Operating assets, changes		2,225	20,952
Operating liabilities, changes		17,097	(4,701)
Cash provided by operating activities		200	27,874
Interest revenues received		3,313	448
Interest expenses paid		(1,241)	(1,034)
Net cash provided by operating activities		2,271	27,288
Investment activities			
Capitalized development cost	7	(286,280)	(228,418)
Grants that lower capitalized development cost	7	102,078	51,008
Investment activities		(184,202)	(177,410)
Financing activities			
Paid-in share captial, net of cost of public offering		699,979	99,200
Instalments of lease liabilities		(6,072)	(5,703)
Other short-term liabilities, change		(0)	(14)
Financing activities		693,907	93,483
Increase (decrease) of cash and cash equivalents		511,976	(56,639)
Cash and cash equivalents at beginning of year		58,963	113,737
Translation difference of cash and cash equivalents		(1,314)	1,865
Cash and cash equivalents at end of year		569,625	58,963

The notes on pages 12-24 are an integral part of these Financial Statements.

Notes to the Financial Statements

1. Reporting entity

Solid Clouds hf (the "Company") is a limited liability company incorporated and domiciled in Iceland. The address of the Company's registered office is Eiðistorg 17, Seltjarnarnes, Iceland. The main purpose of the Company is information technology, software development and creation and marketing of computer games.

2. Basis of preparation

a. *Statement of compliance with International Financial Reporting Standards*

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Financial Statements are also in accordance with the Act on Annual Accounts and the Regulation on the Presentation and Content of Annual Accounts.

The Financial Statements were approved by the Board of Directors of Solid Clouds hf on March, 30th, 2022.

b. *Basis of measurement*

The Financial Statements are prepared on historical cost basis exempt from the stock option agreements which are valued in accordance with the requirements of IFRS 2.

c. *Presentation and functional currency*

The Financial Statements are presented in Icelandic krona (ISK), which is the Company's functional currency. All financial information presented in ISK has been rounded to the nearest thousand except when otherwise indicated.

d. *Use of estimates and judgements*

The preparation of Financial Statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The determination of fair value is based on preconditions, which are dependent on the judgment of management on future events. Actual results can be different from these estimates. Management's assessment has the greatest impact in deciding on the capitalization of development cost.

e. *Going concern*

COVID-19's management and managers actions have focused on ensuring the safety and well-being of employees through measures to reduce their risk of infection. The Company initiated remote working for the majority of its employees in the first months of 2022 after the Omicron variant became widespread.

In 2021, the Company was listed on the First North market and the Company's share capital was increased at the same time. Total paid-in capital net of the cost of the share offering amounted to ISK 700 million. It is the opinion of the Company's management that the Company's going concern is secured and that the Company is well positioned to meet its obligations for the next twelve months.

The Financial Statements are therefore presented based on continuing operations.

Notes, cont.:

3. Significant accounting policies

a. Foreign currencies

Transactions in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated to Icelandic krona at the foreign exchange rate at the reporting date.

b. Revenue recognition

The Company has income from the sale of virtual goods in the computer games that the Company has released. Revenue from virtual goods is recorded when players have used the products in question. The Company estimates the amount of unused virtual goods on the reporting date and enters it as prepaid income. Historically, players have mostly used products within a month of purchasing the products in question, and this is taken into account in the estimation.

c. Government grants

Government grants related to development costs have been entered to reduce capitalized development costs to offset them against the costs they are intended to cover.

Reimbursement for research and development costs for the year 2021 will be paid in October or November 2022. The reimbursement has not been recognized.

d. Employee benefits

Employees' salaries are capitalized when their work has been performed and are due to the development of capitalizable projects, but are charged if the conditions for capitalization are not met. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company pays contributions to employees on an independent basis for contributions related to pension funds. The company bears no responsibility for the obligations of the funds.

See note 11d regarding stock option agreements but the Company has entered into stock option agreements with employees so that their interests coincide as closely as possible with the interests of shareholders.

e. Interest income

Interest income is recognized on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

f. Income tax

Income tax is recognized in the Income Statement except when it relates to items that are recognized directly in equity, in which case the income tax is recognized in equity.

Deferred income tax is recognized for temporary differences between the carrying amounts of assets and liabilities in the Financial Statements, on the one hand, and their tax value, on the other.

The calculation of deferred tax is based on the tax rate that is expected to take effect when temporary differences will be reversed, based on current law on the settlement date. Calculated income tax assets and income tax liabilities are equalized when there is a legal right to equalize income tax for payment and tax assets.

Calculated income tax asset are only recognized to the extent that it is considered probable that taxable profits will be available in the future against which the asset can be utilized. The calculated income tax asset is valued on each settlement date and reduced to the extent that it is considered probable that it will not be utilized.

Notes, cont.:

g. *Intangible assets*

Intangible assets are only capitalized when it is probable that the economic benefits associated with the asset will benefit the Company and the cost value of the asset can be estimated reliably. The Company's intangible assets are developed computer games and are recognized at cost less depreciation. Depreciation is recognized in a systematic manner over the estimated useful life of the asset after it starts generating revenue and is based on the 10-year useful life of the asset. Depreciation of development costs is based on depreciation of costs two years before the capitalization each year. Thus, depreciation for the year 2021 is due to capitalization in the year 2019 and earlier. Estimated useful lives and depreciation methods are reassessed at the end of each year.

Research costs are charged when incurred. Development costs are capitalized only if all of the following conditions are met:

- that the Company can complete the development of the intangible asset so that it is ready for use or in a salable condition,
- that the Company intends to complete the development of the property and use or sell it,
- that the Company demonstrates its ability to sell the property,
- that the Company demonstrates that the property will generate income in the future,
- that the Company has sufficient technology and resources to complete development and sales,
- that the Company has the capacity to estimate development expenses reliably.

Capitalization of development costs is only when all of the above conditions are met, otherwise it is expensed when incurred. After capitalization, development costs are booked at cost less accumulated depreciation and impairment.

It is the conclusion of the management that all the above conditions are met.

h. *Right-of use assets and lease liabilities*

At commencement of a lease contract a lessee recognizes a right-of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The right-of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of use asset is posted among fixed assets in the Financial Statements and are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's internal rate of return.

i. *Financial assets*

The Company's financial assets are trade receivables and other receivables. The Company intends to keep the receivables until they are due. Contractual payments on due dates consist only of installments of principal and interests where appropriate. Information about expected loan losses on financial assets can be found in Note 12b.

The Company delists financial assets when the contractual right to future cash flows from the financial asset no longer exists or when the risks and benefits of the financial asset are transferred to another party.

Notes continuing:

j. *Financial liabilities and equity instruments*

An equity instrument is any type of agreement that involves the remaining interests in the Company's assets after all liabilities have been deducted. Equity instruments issued by the Company are recorded at cost less the direct cost of issuing them.

Financial liabilities are estimated at amortized cost based on effective interest rates. The Company only writes off financial liabilities when the obligation due to them no longer exists. Gains or losses due to deregistration are recognized in the Income Statement.

4. **New and amended IFRSs**

In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

- IFRS 9, IFRS 7 & IFRS 16 - IBOR reform Phase II
- IFRS 16 - Covid-19 related rent concessions (extended through June 2022).

The adoption of the amendments stated above has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

The Company has not early adopted new standards or amendments to IFRSs that have been issued and are permitted for early adoption. The following amendments are effective from 1 January 2022:

- IAS 16 Property, Plant and equipment	Proceeds before intended use
- IAS 37 Provisions, contingent liabilities and assets	Onerous Contracts, cost of fulfilling a contract
- IFRS 3 Business Combinations	Reference to Conceptual Framework
- 2018-2020 Annual Improvements cycle	Minor amendments to four IFRSs

The Management of the Company do not expect that the adoption of the amended Standards listed above or other issued new standards and amendments scheduled that become effective in subsequent periods will have a material impact on the Financial Statements of the Group in future periods.

Notes continuing:

5. Geographical distribution of the Company's operating income

The following table shows the distribution of revenue from the sale of the game Starborne in different countries in the year 2021 compared to 2020, with 15 biggest each year:

	2021		2020	
	Sale in ISK thousands	Percentage of sale	Sale in ISK thousands	Percentage of sale
United States of America (USA)	5,486	34.33%	33,007	51.76%
Canada	2,436	15.24%	4,445	6.97%
United Kingdom	1,920	12.02%	4,387	6.88%
Australia	996	6.23%	2,748	4.31%
Germany	464	2.91%	3,475	5.45%
France	387	2.42%	1,530	2.40%
Lithuania	343	2.15%	-	-
Mexico	280	1.75%	-	-
Greece	243	1.52%	-	-
Sweden	227	1.42%	1,052	1.65%
Netherlands	208	1.30%	931	1.46%
Denmark	203	1.27%	701	1.10%
Philippines	203	1.27%	-	-
Romania	194	1.21%	-	-
Mauritius	180	1.12%	-	-
Russia	-	-	1,256	1.97%
South-Africa	-	-	638	1.00%
Hungary	-	-	599	0.94%
China	-	-	440	0.69%
Brazil	-	-	440	0.69%
Belgium	-	-	389	0.61%
45 / 73 other countries	583	13.83%	7,729	12.12%
Revenues from the game	14,353	100.00%	63,769	100.00%

6. Salaries and salary related expenditures

Salaries and salary related expenditures are specified as follows:

	2021	2020
Salaries	165,129	114,666
Salary related expenditures	34,780	23,253
Salaries and salary related expenditures in the Income Statement	199,910	137,918
Capitalized salaries and salary related expenditures as development cost	(191,233)	(121,592)
Expensed salaries and salary related expenditures	8,677	16,326
Average number of full time equivalent employees	20	17

The total salaries of the Board, and managing directors (2021: 3, 2020: 2) of Solid Clouds hf amounted to a total of ISK 26.7 million in the year 2021 (2020: ISK 20.7 million). Pension fund payments amounted to ISK 3.2 million during the year 2021 (2020: ISK 2.4 million).

Notes continuing:

7. Intangible assets

The Company's development costs are based on the Company's production of a multiplayer video game technology framework that can be used to make multiplayer games for the international market. The production of such games is generally complex, time consuming and expensive. As stated in Note 3g, management estimates that the capitalization of development costs meet all IAS 38 capitalization requirements.

Depreciation of the development cost is calculated over the estimated life of the project, which is ten years. Development cost and depreciation are specified as follows:

	2021	2020
Book value 1.1.	545,677	395,317
Capitalized development cost, see note 16	286,280	228,418
Grants that lower capitalized development cost, see note 13	(102,078)	(51,008)
Depreciation of development cost	(39,532)	(27,050)
Book value 31.12.	690,347	545,677

8. Leases

The Balance Sheet shows the following amounts relating to leases:

	2021	2020
<i>Right-of use assets</i>		
Balance at the beginning of the year	13,428	18,795
Increase in right-of-use assets due to revaluation of lease liabilities	541	504
Renewed lease agreements during the year	2,274	0
Depreciation during the year	(6,021)	(5,871)
Balance at the end of the year	10,222	13,428
<i>Lease liabilities</i>		
Non-current	4,534	8,942
Current	6,352	5,088
Total lease liabilities	10,886	14,029

The Income Statement shows the following amounts relating to leases:

Depreciation of right-of-use assets	6,021	5,871
Interest expense (included in interest expenses)	783	815
Expense in short-term leases (included in operating expenses)	0	1,524
Total expense in the Income Statement for leases	6,804	8,210

The Company paid ISK 6.7 million in rent in the year 2021 (2020: ISK 7.9 million).

Depreciation in the Income Statement is specified as follows:

Depreciation of right-of-use assets, see above	6,021	5,871
Depreciation of development costs, see note 7	39,532	27,050
Total depreciation expense in the Income Statement	45,553	32,921

Notes continuing:

9. Income tax asset

Income tax asset is specified as follows:	2021	2020
Income tax asset at the beginning of the year	32,318	0
Income tax in the Income Statement	28,534	32,318
Income tax asset at the end of the year	60,852	32,318

Calculated income tax asset is divided to the following items:

Accumulated tax loss	198,870	141,453
Development cost	(138,069)	(109,135)
Currency exchange difference	51	0
Income tax asset in the Balance Sheet	60,852	32,318

The tax loss at the end of 2021, which may be carried forward according to Icelandic tax law, amounts to ISK 994 million. Accumulated tax losses that are not used against profits within ten years of their formation are canceled. Carry-forward tax loss at year-end 2021 is usable as follows:

Tax loss for the year 2013, useable until the year 2023	967
Tax loss for the year 2015, useable until the year 2025	52,527
Tax loss for the year 2016, useable until the year 2026	68,585
Tax loss for the year 2017, useable until the year 2027	106,974
Tax loss for the year 2018, useable until the year 2028	109,360
Tax loss for the year 2019, useable until the year 2029	160,170
Tax loss for the year 2020, useable until the year 2030	198,255
Tax loss for the year 2021, useable until the year 2031	297,513
Carry-forward tax loss at year-end 2021	994,351

10. Other payables

Other payables is specified as follows:	31.12.2021	31.12.2020
Unpaid salary	0	393
Pension funds	4,793	17
Vacation commitment	11,927	8,416
Employee taxes	7,499	0
Unpaid because of employees	214	286
Government charges	19	18
Prepaid income	200	395
Liabilities to related parties	190	200
Miscellaneous	0	178
Other payables 31.12.	24,842	9,903

Notes continuing:

11. Equity

a. Share capital

The Company's share capital, according to its Article of Association amounts to ISK 184,2 million. One vote is attached to each ISK one share in the Company.

b. Share premium

The Company's share premium shows the premium paid for paid-in share capital during the year.

c. Restricted equity

According to Icelandic laws and regulations, companies that capitalize development cost shall recognize the same amount as a separate item in equity which is not permitted to allocate dividends from. That item shall be settled in proportion to the amount of annual depreciation of capitalized development costs. The item should be dissolved if the asset is sold, discontinued or fully depreciated.

d. Stock option agreement

On 31 December 2021, the Company's employees and contractors are entitled to stock option agreements for 1,333,680 shares in the Company where the acquisition of rights is equal over two to four years. The stock option agreements were granted in the years 2018 to 2021 and expire in the period August 2022 to December 2022. The average price of stock options in the agreements is ISK 5.8.

The cost of stock options is calculated on the basis of the difference between the price on the Balance Sheet date and the stock option price of the stock in multiples of the nominal value of the stock option. Costs are then spread out linearly during the stock option period. If the price of a stock option is higher than the price on the Balance Sheet date, the cost of a stock option agreement is not recognized.

If an employee or contractor has not exercised the stock option within five years of signing or within two years of the employee ceasing to work for the Company, the stock option expires.

	Number of shares	Average redempt. price
The following table shows an analysis of stock options in the year 2021:		
Stock option agreements at the beginning of 2021	2,426,974	4.56
Granted stock options during the year 2021	397,794	6.04
Expired stock options during the year 2021	(1,491,088)	8.27
Stock option agreements at the end of 2021	1,333,680	5.80

Stock option agreements with six key employees were signed on the 15th of March 2022 for the total of 6,724,154 shares with set strike price at 10. The vesting period is two to four years with a possible two-year extension.

	Number of shares	Average redempt. price
The following table shows an analysis of stock options in the year 2020:		
Stock option agreements at the beginning of 2020	3,857,844	5.69
Granted stock options during the year 2020	915,505	4.91
Expired stock options during the year 2020	(899,037)	4.07
Cancelled stock options during the year 2020	(1,447,366)	3.55
Stock option agreements at the end of 2020	2,426,947	4.56

Notes continuing:

12. Financial risk management

a. Overview

The Company is exposed to various types of risk that are associated with the financial instruments and markets in which it operates. The most important types of financial risk to which the Company is exposed from are:

- * credit risk, see b.
- * liquidity risk, see c.
- * market risk (currency risk, interest rate risk), see d.
- * operational risk, see e.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management. The Board has commended the Managing Director's day to day developing and monitoring of the Company's risk management policies.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Furthermore, the goal is to manage risk effectively and risk management is based on the risk being in accordance with the Company's willingness to take risks, thus contributing to increased stability and long-term profitability. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

b. Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Company does not lend to its customers. The Company's outstanding trade receivables at the end of 2021 and 2020 are credit card receivables. The Company's cash is stored in accounts with Arion Bank and PayPal.

Largest possible loss on financial assets

The Company's largest possible loss due to financial assets is their book value, which was as follows on the reporting date:

Trade and other receivables are specified as follows:	31.12.2021	31.12.2020
Trade and other receivables	3,412	7,082
Largest possible loss on trade and other receivables	3,412	7,082
Cash and cash equivalents	569,625	58,963
Largest possible loss on financial assets	573,037	66,045

Notes continuing:

Impairment on receivables

The age of trade receivables and its impairment was as follows at the end of the year:

	Nominal value		Impairment	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Not yet due	3,412	7,082	0	0
Total trade receivables	3,412	7,082	0	0

The majority of financial assets within the impairment model of IFRS 9 are bank deposits, and it is the opinion of management that they carry insignificant credit risk. Credit risk on trade receivables and other short-term receivables is also assessed as insignificant, as the majority of them are credit card receivables. It is therefore the opinion of the management that the effect of credit risk as a whole is insignificant for the Financial Statements and no write-down is recognized due to credit risk of financial assets.

c. *Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial assets. The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities as they fall due and thus avoid damaging the Company's reputation.

The breakdown by contractual maturity, including expected interest payments, are as follows:

December 31, 2021	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Lease liabilities	10,886	11,467	6,352	4,534	0
Accounts payables	2,450	2,450	2,450	0	0
Related party liabilities	193	193	193	0	0
Other payables	20,611	20,611	20,611	0	0
Total financial liabilities ...	34,140	34,721	29,606	4,534	0

December 31, 2020	Book value	Contractual cash flow	Within one year	1-5 years	Over 5 years
Interest bearing debt	14,029	15,105	5,088	8,942	0
Accounts payables	405	405	405	0	0
Related party liabilities	200	200	200	0	0
Other payables	9,903	9,903	9,903	0	0
Total financial liabilities ...	24,538	25,614	15,596	8,942	0

Notes continuing:

d. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company is exposed to currency risk due to purchases and borrowings in currencies other than ISK. The currencies that mainly create exchange rate risk are the euro (EUR) and the USD.

The Company does not specifically hedge against exchange rate risk through forward contracts. Management regularly reviews the Company's currency risk with the aim of limiting it as much as possible.

The breakdown of assets and liabilities in foreign currency is as follows:

December 31, 2021	EUR	USD	Total
Receivables	235	0	235
Cash and cash equivalents	2,969	192	3,161
Trade payables	(625)	0	(625)
Net currency risk	2,578	192	2,770

December 31, 2020	EUR	USD	Total
Cash and cash equivalents	37,980	14,947	52,927
Net currency risk	37,980	14,947	52,927

The exchange rates of the major currencies during the years 2021 and 2020 were as follows:

	Average exchange rate		Period-end exchange rate	
	Year 2021	Year 2020	31.12.2021	31.12.2020
EUR	150.19	154.52	147.60	156.10
USD	127.05	135.27	130.38	127.21

Sensitivity analysis

A 10% strengthening of the ISK against the following currencies on December 31, 2021 would have increased (decreased) the Company's equity and profit before income tax by the following amounts. The analysis is based on all other variables remaining unchanged.

	31.12.2021	31.12.2020
EUR	258	3,798
USD	19	1,495

The 10% weakening of the ISK against the above-mentioned currencies would have had the same effect but in the opposite direction, provided that all other variables had remained unchanged.

Notes continuing:

e. Operational risk

Operational risk is the risk of direct or indirect loss that may occur due to a number of factors in the Company's operations, its staff work, technology and organization, inadequate or defective internal processes, and external factors other than credit, market and liquidity risk, such as due to changes in laws and general attitudes towards corporate governance. Operational risk arises for everyone the Company's operations.

It is the Company's policy to manage operational risk in an efficient manner in order to avoid financial losses and to protect its reputation, while ensuring that the rules of procedure do not limit the initiative and creativity of employees.

In order to reduce operational risk, the Company has taken various measures. Appropriate job separation has been established, the Company has emphasized good working conditions, emphasized cost analysis, planning and monitored business and compliance with the law, conducted regular risk assessments, trained employees, organized work processes and more.

13. Grants

Grants in the Income Statement are specified as follows:	2021	2020
Received grants	102,078	56,676
Received grants that lower capitalized development cost	(102,078)	(51,008)
Grants in the Income Statement	<u>0</u>	<u>5,668</u>

14. Development cost

Development cost in the Income Statement is specified as follows:	2021	2020
Development cost	66,157	82,015
Capitalized development costs	(62,849)	(73,813)
Development cost in the Income Statement	<u>3,308</u>	<u>8,201</u>

15. Operating expenses

Operating expenses in the Income Statement is specified as follows:	2021	2020
Operating expenses	52,371	68,952
Capitalized operating expenses	(32,198)	(33,013)
Operating expenses in the Income Statement	<u>20,173</u>	<u>35,939</u>

Notes continuing:

16. Capitalized development cost

Capitalized development cost according to note 7 is specified as follows:	2021	2020
Capitalized development costs, see note 14	62,849	73,813
Capitalized salary and salary related cost, see note 6	191,233	121,592
Capitalized operating expenses, see note 15	32,198	33,013
Capitalized development cost according to note 7	286,280	228,418
Received grants that lower capitalized development cost, see note 13	(102,078)	(51,008)
Capitalized development cost, net of grants	184,202	177,410

17. Total operating expenses

Total operating expenses in 2021 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2021
Development cost	62,849	3,308	66,157
Salary and salary related cost	191,233	8,677	199,910
Operating expenses	32,198	20,173	52,371
Total operating expenses in 2021	286,280	32,158	318,438
Total operating expenses in 2020 is specified as follows:	Capitalized	Cost in the Income Statem.	Total operat. exp. 2020
Development cost	73,813	8,201	82,015
Salary and salary related cost	121,592	16,326	137,918
Operating expenses	33,013	35,939	68,952
Total operating expenses in 2020	228,418	60,467	288,885

18. Related parties

Identity of related parties

The Company has a related party relationship with its shareholders with significant influence, companies owned by them and with its directors and executive officers and their spouses and dependent children.

Transactions with management and key personnel

Reference is made to note 6 on salaries and benefits for the Company's board and management.

There were no transactions with related parties in 2021.

Related party balances:	31.12.2021	31.12.2020
Related party balance at year-end	190	200